

January 13, 2020

Veeramakali Memorial Welfare Trust: Ratings downgraded to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund based Term Loan	173.65	173.65	[ICRA]D; downgraded from [ICRA]BB+ (Stable)
LT Unallocated	41.35	41.35	[ICRA]D; downgraded from [ICRA]BB+ (Stable)
ST Fund based	65.00	65.00	[ICRA]D; downgraded from [ICRA]A4+
Total	280.00	280.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action reflects the recent delays in servicing the debt obligation by Veeramakali Memorial Welfare Trust (VMWT) as confirmed by the lenders. The delays are attributed to the mismatch in cash flows between lumpy fee collections against periodic debt repayment obligations. VMWT is part of the Velammal group of trusts, which has long track record of operations in the educational sector.

Key rating drivers and their description

Credit strengths

Extensive track record and strong brand: The trust is a part of the Velammal group which has a long track record of operations of over three decades and strong brand in the educational sector.

Credit challenges

Delay in debt servicing: ICRA notes instances of delays by the trust in servicing its principal and interest obligations on its term loans, as confirmed by the lenders.

Moderate Financial profile and poor liquidity: The financial risk profile of the trust continues to be moderate with gearing of 1.6 times as on March 31, 2019, TD/OPBITDA of 4.6 times in FY2019. Cash flow mismatches between the lumpy fee receipts and periodic debt repayment obligations affects its liquidity profile.

Competition and regulatory risks: The trust remains exposed to competitive intensity from both existing schools and other rapidly expanding schools in the vicinity. However, considering the established brand presence of the Velammal group and well spread geographical reach, it is insulated from the competition, to some extent. The education sector in India remains highly regulated with respect to compliance with infrastructure, content and course standards etc. The trust's earnings remain vulnerable to regulatory related risks.

Liquidity position: Poor

The liquidity position of VMWT is poor owing to cash flow mismatches between fee receipts and periodic repayment obligations as evidenced by irregularity in servicing its repayment obligations.

Rating sensitivities

Positive triggers – Regularisation of debt servicing obligations on a sustained basis (more than three months)

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Higher Education Sector Policy on default recognition
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Established in 1986 by Mr. MV Muthuramalingam, Velammal group of trusts operate over 50 educational institutions including schools, engineering colleges medical college and hospital and has total student strength of over 1,00,000. The schools and colleges of the trust are spread across Tamil Nadu in various districts including Thiruvallur, Kancheepuram, Sivagangai, Madurai, Theni & Karur marking a strong foothold in TN in the education space. Currently, the educational institutions are run under seven trusts and one private limited company – Velammal Educational Trust (VET), Velammal Chennai Educational Trust (VCET), Velammal Madurai Educational Trust (VMET), Veeramakali Memorial Welfare Trust (VMWT), Ramana Educational Trust (RET), Vallimuthu Educational Trust, Muthuramalingam Kuncharavalli Educational Trust (MKET), Learnvel Private Limited.

In FY2019, VMWT reported a net profit of Rs.20.8 crore on an operating income of Rs.236.3 crore as compared to a net profit of Rs.22.8 crore on an operating income of Rs.222.2 crore in the previous year.

Key financial indicators

	FY2018 Audited	FY2019 Audited
Operating Income (Rs. crore)	222.2	236.3
PAT (Rs. crore)	22.8	20.8
OPBDIT/OI (%)	31.5%	29.5%
RoCE (%)	18.3%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.8
Total Debt/OPBDIT (times)	4.4	4.6
Interest Coverage (times)	2.7	3.2
DSCR	0.7	0.6

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding March 2019 (Rs. crore)	Date & Rating 13 January 2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
					18 March 2019	-	-	
1	Term Loan	173.65	167.24	[ICRA]D	[ICRA]BB+ (Stable)	-	-	
2	Overdraft	65.00	NA	[ICRA]D	[ICRA]A4+	-	-	
3	Unallocated – Proposed	41.35	NA	[ICRA]D	[ICRA]BB+ (Stable)	-	-	

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan 1	FY2017	NA	FY2022	19.50	
	Term Loan 2	FY2017	NA	FY2022	15.00	
	Term Loan 3	FY2019	NA	FY2023	19.50	
	TL – unalloc	-	NA	-	3.50	
	Term Loan 4	FY2016	NA	FY2021	9.00	
	Term Loan 5	FY2017	NA	FY2023	11.60	
	Term Loan 6	FY2015	NA	FY2023	12.00	
NA	Term Loan 7	FY2017	NA	FY2023	16.25	[ICRA]D
	Term Loan 8	FY2018	NA	FY2024	12.00	
	Term Loan 9	FY2018	NA	FY2024	19.00	
	TermLoan 10	FY2018	NA	FY2024	16.00	
	TermLoan 11	FY2017	NA	FY2024	5.30	
	TermLoan 12	FY2018	NA	FY2026	15.00	
NA	Overdraft	NA	NA	NA	65.00	[ICRA]D
NA	Unallocated	NA	NA	NA	41.35	[ICRA]D

Source: Veeramakali Memorial Welfare Trust

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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